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UNCLAS SECTION 01 OF 02 MANAMA 000673

SENSITIVE
SIPDIS

BAGHDAD FOR AMBASSADOR ERELI
STATE FOR OBO, NEA/EX

E.O. 12958: N/A
TAGS: [ECON](#) [AMGT](#) [BA](#)
SUBJECT: CONSTRUCTION SHORTAGES DRIVE REAL ESTATE MARKET
FASTER THAN OVERALL INFLATION

REF: A. MANAMA 521
[1](#)B. MANAMA 565
[1](#)C. 07 MANAMA 887

[1](#)1. (SBU) Summary: Bahrain has faced a sharp increase in the price of construction materials since 2005. Even as land prices have stabilized, these cost increases have helped drive a similarly sharp increase in real estate prices. Although the purchase and lease rates for retail/office space have begun to stabilize, residential prices continue to rise--exceeding 20-25% per year in some areas. There are no signs of a "bubble" and the market should eventually come to a soft landing. End Summary.

[1](#)2. (U) Bahraini building contractors have faced significant cost increases since 2005 due to a combination of factors including the construction boom throughout the GCC and Bahrain's limited local resources. The construction booms in the UAE, Qatar, Saudi Arabia, Kuwait, and Bahrain have created immense upwards pressure on the prices of building material inputs in the GCC, and have resulted in project-delaying shortages of steel and cement in Bahrain. As many construction inputs are imported from China, South Asia, and the EU, the depreciating dollar--and Bahrain's hard peg to the dollar--has exacerbated the price increases felt by local developers.

[1](#)3. (U) From 2005 to 2007 the prices of most building materials in Bahrain increased by more than 30%, with prices of some inputs, such as steel, increasing by more than 100%. The production of concrete appears to be the sector most heavily affected. Between 2005 and 2007, the average prices of the raw inputs of concrete increased significantly: aggregate increased by 160%, limestone increased by 50%, sand increased by 300%, and cement increased by 81%--which then increased an additional 60% in 2008 following Saudi restrictions on cement exports (ref B). The market for steel and rebar did not fare much better with prices rising by 108% over the same period.

[1](#)4. (U) A combination of the increase in construction costs and the delays caused by material shortages have led to significant increases in real estate prices, both retail and residential. A survey of major real estate companies in Bahrain reveals that while land prices generally stabilized between 2007 and 2008 and are presently rising at approximately the same rate as overall inflation (that is between 5-10% annually), rental and purchase prices of real estate have risen by approximately 30% a year for each of the last two years, with residential growth rates generally outpacing office/retail rates, as smaller residential projects struggle to compete for scarce materials with large commercial and government projects. Residential lease rates

in and around Manama rose by an average of 15-20% again in the first half of 2008.

15. (U) Between 2005 and 2007 rental rates in large retail centers--over 10,000 square meters--varied significantly. Prices rose from \$24-32 per square meter to \$40-106 per square meter--increases of 66% on the low end to 231% on the high end. Despite the rate increases, Bahrain's retail malls report strong occupancy rates, with six of the eight largest malls reporting 100% occupancy and no mall reporting less than 94%. Smaller retail centers fared similarly, reporting occupancy rates between 75-100% and lease rate increases since 2005 averaging 25%. Real estate companies report that the growth in retail rates slowed in 2008.

16. (U) Growth in residential purchase/lease rates over the same period have been less varied than in the retail market, but have been generally higher and have continued to increase in 2008. In 2007 the average residential lease in the Saar neighborhood increased by 25%, in Adliya by 20%, and in Juffair by 10%. In the first half of 2008, lease rates increased an additional 20% in Saar, 15% in Adliya, and 10% in Juffair. Many of the real estate companies expect residential lease rates to slow and stabilize by the second quarter of 2009 as a number of large projects are completed and real estate markets slow in general.

17. (SBU) Comment: Although there does not appear to be a real estate bubble that may collapse rapidly, there are signs that the commercial market, at least, is softening. One major real estate company, Tameer (protect) reports that it is seeing the first decrease in real estate volumes since 2001,

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and suspects that some markets, especially those susceptible to rampant speculation such as freehold properties in hot business areas, may see a decrease in prices over the next two years. Local financial institutions have increased the risk assigned to local mortgages and it appears that investors are taking their cues from the financial institutions and slowly withdrawing from the market, relieving some of the upward pressure on prices. However, the big rises of the past two years have put a real strain on the Bahraini middle class, and on companies) and Embassies) that must provide housing for their expat staff.

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